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National Intelligence Bulletin

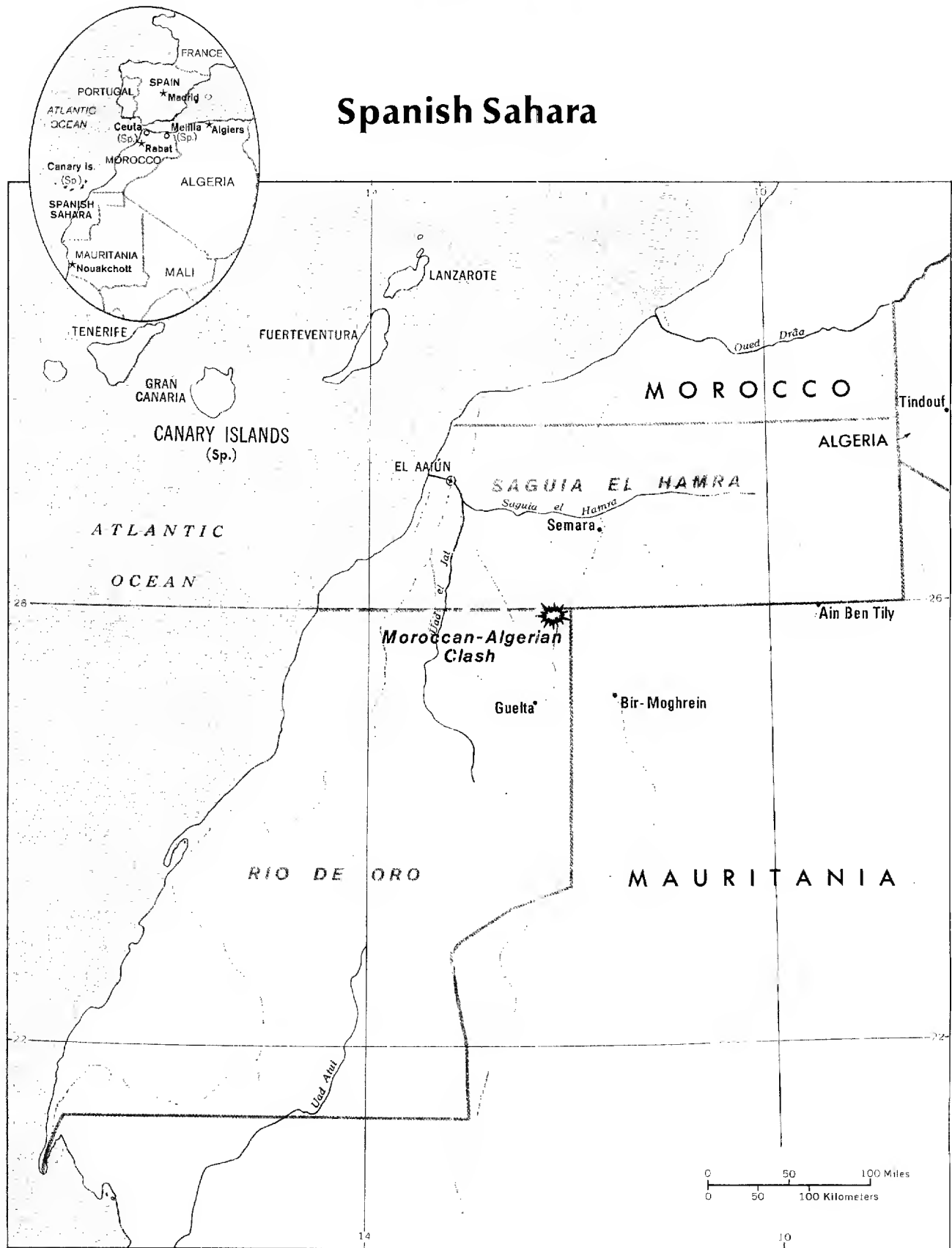
January 28, 1976

CONTENTS

| | |
|---|---|
| MOROCCO-ALGERIA: Tensions increase after clash | 1 |
| LEBANON: Cease-fire taking hold in Beirut | 3 |
| IRAN: Shah plans to cut price of heavy crude | 4 |



ANNEX: Spain to Announce
Liberalization Proposals Today



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National Intelligence Bulletin

January 28, 1976

MOROCCO-ALGERIA

Tension between Morocco and Algeria sharply increased yesterday after Algerian media accused the Moroccans of attacking Algerian army troops assigned to transport food and medicine to Saharans north of the town of Guelta. This is the first confirmed encounter involving forces of the two countries since the trouble over Spanish Sahara started, as well as the first open acknowledgment by Algiers that its forces are inside the territory. The Algerians characterized the incident as an escalation of Moroccan provocations against Algeria.

A Moroccan communique did not identify the group involved in the incident as Algerian. It claimed that Moroccan forces had intercepted several "armed groups" and had captured 12 Algerians in Algerian military uniform, presumably operating with elements of the Algerian-backed Polisario forces.

President Boumediene yesterday convened an emergency joint session of the Revolutionary Council and the Council of Ministers to discuss the incident. A communique issued afterward charged that the Moroccan attack was "extremely serious" and warned that the situation could get out of hand if such incidents continued. The communique said that the government has decided to take a "certain number of measures" to deal with the situation. It gave no details

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If Algeria continues to build on its charges—especially if it repeats the charge that Algerian troops were attacked—it may mean that the Algerians are preparing the ground for a strong response. If Algiers has reached such a decision, it might opt for retaliation by aircraft based at Tindouf, rather than a ground attack.

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National Intelligence Bulletin

January 28, 1976

LEBANON

The latest cease-fire has taken hold in almost all areas of Beirut. Christian and Muslim militiamen withdrew from their positions in the hotel district late Monday, and the Christians lifted their blockade of Palestinian refugee camps yesterday.

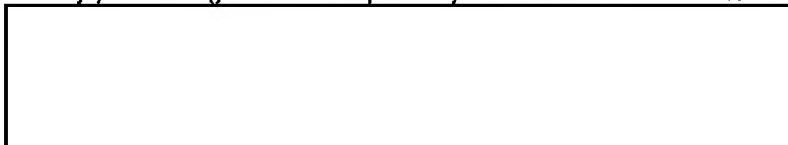
Opposing militia forces have not yet withdrawn from one trouble spot in the southern part of the city, and isolated clashes continue in eastern Lebanon. These are not likely to upset the cease-fire as long as the political talks continue to make progress.

Limited commercial activity has resumed in Beirut. Foodstuffs and heating oil have been distributed to most areas of the city, and shortages are no longer acute.

Representatives of the various Lebanese factions reportedly are near agreement on specific political reforms. The cabinet is scheduled to meet today, presumably to approve a tentative agreement for submission to parliament. Neither the cabinet nor the parliament is likely to delay endorsement of any compromise already approved by leaders of the principal Christian and Muslim factions.

Although the politicians reportedly are now negotiating more for form than substance, their commitment to the projected agreement is so tenuous that either the Christians or Muslims might still raise objections serious enough to derail the talks. Christian leaders are meeting resistance to any concessions from their ultraconservative followers, and some Christians and conservative Muslims are complaining about the Syrian and Palestinian "occupation" of Lebanon.

Syrian Foreign Minister Khaddam returned to Damascus yesterday, telling reporters he would be back in Beirut today. He is expected to make arrangements for Lebanese President Franjyah's long-awaited trip to Syria for consultations with Syrian President Asad.



National Intelligence Bulletin

January 28, 1976

IRAN

The Shah plans to cut the price of Iran's heavy crude 9.5 cents a barrel retroactive to January 1 in order to spur lagging oil sales, according to reliable trade journals.

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The Shah was probably planning to hold off the announced cut until after the OPEC meeting, scheduled for February 1, on price differentials. Cancellation of that session, however, may lead him to lower prices now.

Even with the price reduced to \$11.40 a barrel, Iranian heavy crude will be about 40 cents higher than Saudi benchmark crude. Because of the depressed market for heavy crude, we do not look for an appreciable increase in Iran's oil sales.

The Shah will probably intensify his pressure on the oil companies in Iran to expand sales. Although additional price cuts seem in order, the Shah will probably go slow for fear of triggering a fruitless price war among heavy oil producers.

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Next 6 Page(s) In Document Exempt

Approved For Release 2006/03/17 : CIA-RDP79T00975A028500010046-5

National Intelligence Bulletin

January 28, 1976

ANNEX

SPAIN TO ANNOUNCE LIBERALIZATION PROPOSALS TODAY

For more than two months, influential Spaniards have been sparring over the issue of how much change should be introduced into the Spanish political system. The debate has focused on differences between those who want more popular participation in Spain's political institutions and those who continue to extol the virtues of the Franco era.

The sparring may now be over. When Prime Minister Arias presents his program to the parliament today, rhetoric will give way to reality; there is doubt that all participants in the debate will continue to act with the same restraint that they have been exhibiting since Franco's death.

Arias Propaganda

Arias is expected to propose measures that will permit political parties, with the exception of the Communists and various extremist groups, to participate legally in the political process.

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Arias is expected to propose economic measures designed to improve the lot of the middle class. He will call for the establishment of a commission to find ways to provide greater autonomy for the Basque and Catalan minorities. He also wants to schedule a constitutional referendum later this year to cover various reforms such as the broadening of the election system.

Many members of parliament and the even more conservative Council of the Realm will regard such a program as a direct attack on the stability that prevailed during the Franco era and the privileged position they gained from it. The current constitution is sufficiently vague as to leave uncertain whether these two rightist strongholds can prevent the cabinet from redistributing political power. The cabinet would prefer to have their cooperation, however, and will work for a compromise.

The Far Right

The government has already been challenged from the far right. Last Friday, the Council of the Realm voted against postponing for one year the parliamentary election scheduled in March. The Council quickly backed off, but it did serve notice to the cabinet that reforms will not pass unopposed.

National Intelligence Bulletin

January 28, 1976

The far right is strongly represented in the security forces—especially in the parliamentary civil guard. These forces fall under the authority of Interior Minister Fraga, who is one of the chief architects of the government's program. Conservative sentiment is also strong in the upper ranks of the military, but it is balanced to a certain extent by officers who are willing to tolerate the kind of gradual, tightly controlled liberalization that the government plans.

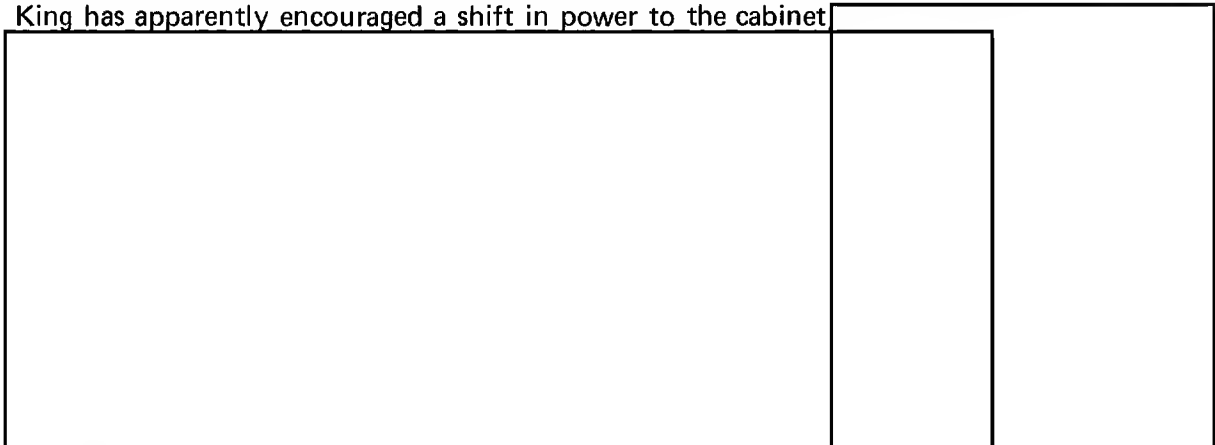
The military is, by all accounts, determined to keep out of politics unless liberalization seems to be proceeding too fast or there is a general breakdown of public order. The government's success in quelling recent demonstrations and strikes has reassured the military.

Extremists on the far right have been lying low since Fraga condemned their activities earlier this month and police in Barcelona arrested ten of their number. It is possible that groups like the Guerrillas of Christ the King will again attempt to cause trouble at leftist demonstrations in an effort to show that the government's more tolerant attitude is dangerous to public order.

The far right could, of course, try to mount mass rallies of its own, but so far there has been no sign of this. It may be that the rightists fear poor turnouts from a population that, on the whole, seems to desire change.

The apparent success of the government's policy of restraint—particularly during the labor unrest this month—has weakened extremist appeals. The unrest has now passed its peak; the government had to step in only where public services were disrupted. Some political demonstrations, especially those where Communists were conspicuously involved, have been dispersed with tear gas and smoke bombs, but the bloodshed and mass arrests that characterized crowd control under Franco have been avoided.

Some concern has been voiced by rightists, especially in the military, that King Juan Carlos did not take a more active role in dealing with the labor unrest. The King has apparently encouraged a shift in power to the cabinet



National Intelligence Bulletin

January 28, 1976

The Left

Although the far right has been troublesome, it has been restrained compared to the left. The left will not be satisfied by the Arias program and will continue to clamor for:

- Complete amnesty for an alleged 1,500 political prisoners; the government puts the figure at 500.
- Legalization of all political parties, including the Communists.
- Free trade unions.
- Elimination of the wage ceiling.
- Unlimited rights of assembly, speech, petition, and strike.

The left is split over how fast these changes should be effected and how much pressure should be exerted on the government to make them. The most radical groups, led by the Communists, want an immediate rupture with the Franco system and are willing to exert all the pressure they can—including, if possible, a general strike—to achieve it. Other groups, mainly Christian Democrats, have been encouraged by the freer atmosphere since the new government took over, and are inclined to try to work through the system to prod the government into speeding up the pace of change.

Tension within the left will probably increase if the government follows through with its intention of legalizing only the non-Communist parties. Most leftists advocate bringing the Communist Party out into the open. Felipe Gonzalez, leader of the Socialist Workers' Party, has said publicly that his party will not participate in the political process unless the Communists can too.

Gonzalez is unlikely, however, to persist in spurning legalization. To do so would invite a split in his party, perhaps driving some into the Communist camp, and further fragmentation of the whole Spanish Socialist movement. Most other Socialist factions would probably take up a government offer of legalization.

It would be in the government's interest to woo the Socialist Workers' Party, which appears to be the only real alternative to the Communists. Reaching an agreement with the Socialists could, therefore, be the key to coming to terms with the left in general.

The Communists

The Communist Party will have to face up to the real possibility that it will not be legalized in the near term. While continuing to emphasize an independent "Italian" line, Communist leaders are now concentrating on two major tactics.

National Intelligence Bulletin

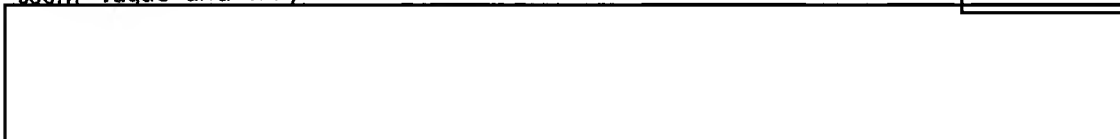
January 28, 1976

In order to prevent the government from isolating their party from the rest of the left, Communists have sought to merge the broad leftist coalition they dominate, the Democratic Junta, with the Socialist-led coalition, the Platform of Democratic Convergence, and have even made concessions to encourage closer ties. A merger seems unlikely. At the same time, Communists have tried to exert pressure on the government, to discredit its liberalization program, and to convince Arias and Fraga, through strikes and demonstrations, that the Communist Party is so strong that it will have to be dealt with.



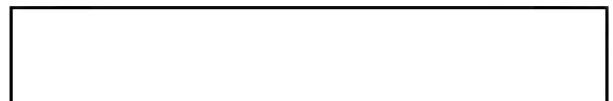
The government's mixture of restraint and selective firmness appears to have curbed the strikes this time, but there are more labor disorders to come. Apart from inflation, unemployment, and the wage ceiling—which the government has winked at in recent contract settlements—one of the major problems in labor relations is an anachronistic labor structure.

A freer structure that would permit Catholics, Socialists, and conservatives to compete better with the Communists may be the only way for the government to break the Communist stranglehold on labor. So far, government plans along this line seem vague and may have been set back by the unrest this month.



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